Priorities of Government
Team Process Guide
for the Development of the 2005-07 Budget

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POG II Schedule (

April

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June

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2004

March 4-8	Invitations sent to teams
April 7	Results Team Kickoff Session
April 19	First Guidance Team meeting
April 29	Tollgate #1 Past Strategy Review – **Products Due April 22**
May 3	Strategic plans due from agencies
May 25	Tollgate #2 05-07 Strategy Review – **Products Due May 19**
Early June	Budget Guidance to agencies
September 1	Agency budget requests to OFM
September 13	Fall Guidance Team Kickoff Session
September 17	Fall Result Team Kickoff Session
October 13	Tollgate #3 High-level purchase plans – **Products Due October 6**
November 4	Tollgate #4 Detail Purchase Plans – **Products Due October 28**
November 12	Report to Governor

POG II: Building the Best State Budget in America

Thank you for participating in Washington State's Priorities of Government (POG) process. You were invited by the Office of Financial Management to join POG II because we know you have the experience, ideas and commitment to help us do a better job of designing the single-most important policy document in the state government – the state operating budget.

The current 2003-05 state budget was shaped by OFM's use of the POG process in 2002. In 2004, POG II will pick up where we left off – with one big difference. This is no longer an experiment. This is our budget approach. Your role is to help us develop budget priorities that will effectively deliver the services that matter most to the people of Washington. Together we will create a strategic framework for state government by answering these questions:

- What are the results that citizens expect from government?
- What strategies are most effective in achieving those results?
- Given the money available, which activities should we buy to implement those strategies?
- What changes in practice or costs do we need to make to maximize the results we deliver to citizens?
- How will we measure our progress?

How POG aids budget development

- **Gives us the whole picture – from a citizen perspective**
  The traditional approach to budgeting – focusing on incremental changes in the base budget – can only take us so far. POG, instead, views all of state government – all its agencies and all its functions – as a single enterprise. New proposals are evaluated in the context of all that state government does, and strategies for achieving priority results are developed with an eye on all the state resources that are available. POG helps us explain our budget decisions to the public, and it helps us keep a citizen-focused perspective on the budget.

- **Focuses on a results-based prioritization of government activities**
  We face many constraints in building a budget, but that doesn't mean we have to live with them. Priorities of Government budgeting assumes we change the rules, if necessary, to maximize the results we can get from state government. What we learn from POG can help us build the business case for removing barriers standing in the way of delivering results to citizens.

POG's a pressure cooker – we admit it. Deliberations and deadlines occur at a brisk pace, but that helps the results teams on which you serve stay focused on getting results. And that means we need your full attention and your best thinking. Thanks for joining us for POG II.

Description of Key POG Process Elements

Statewide Results

The Priorities of Government process in 2002 identified 11 results that form the core of what must be done, and done well, to serve the citizens of Washington State:

Statewide Results
1. Improve student achievement in elementary, middle and high schools
2. Improve the quality and productivity of the workforce
3. Improve the value of postsecondary learning
4. Improve the health of Washington citizens
5. Improve the security of Washington's vulnerable children and adults
6. Improve the economic vitality of businesses and individuals
7. Improve statewide mobility of people, goods, information and energy
8. Improve the safety of people and property
9. Improve the quality of Washington's natural resources
10. Improve cultural and recreational opportunities throughout the state
11. Improve the ability of state government to achieve results efficiently and effectively

These results form the framework of the POG exercise. Teams of subject-matter experts have been organized for each result area to make recommendations on the strategies and activities most essential for achieving these results.

Key Indicators

In the 2002 POG report, teams each identified three key indicators they believed would provide the best evidence to the citizen about progress toward the result. These indicators have been refined and baseline data for most is now available on the OFM web site at http://www.ofm.wa.gov/budget/pog/indicators/default.htm. This year, results teams will be asked to review and revise these indicators.

Activity Inventory

The "Activity Inventory" describes the major activities of each agency. An activity is something an organization does to accomplish its goals and objectives. An activity consumes resources and produces a product, service, or result. One way to define activities is to consider how agency employees describe their jobs to their families and friends. On behalf of the state's citizens, we basically want to know, "What do you do? For whom? Why is it valuable?"

Activity descriptions tend to be better than program descriptions at revealing the nature and purpose of the work state government performs. The results teams will use the activity inventory as the starting point for developing purchase plans. The Activity Inventory is available on the OFM web site at http://www.ofm.wa.gov/budget/pog/resources.htm. This information was updated to reflect the enacted supplemental budget.

Each activity description includes the following information:

- A brief description of the activity, its purpose, and its intended recipient or beneficiary;
- The estimated cost of the activity; and
- The expected results of the activity (conveyed as one or more performance measures and/or as a concise narrative description of outcomes).

In the Activity Inventory system we have identified a "primary statewide result" for each activity. This enables us to present the full budget by activity without double counting. However, because many activities certainly contribute to more than one result, we also note any additional result areas to which the activity may contribute. Results teams will receive reports that include every activity that might contribute to their result.

Purchase Plan

In the fall, results teams will be asked to develop a purchase plan for their result area. By purchase plan we mean the list of activities most important to procure to implement the strategies most important for achieving the result. Teams may "purchase" activities from the Activity Inventory, purchase modified forms of those activities, or purchase completely new activities.

Allocations

Sometime in the spring, each team will be given a dollar allocation, or purchase plan limit. While the plans will not be developed until the fall, the allocations should be useful in the spring to give the teams a sense of scale and possibility as they recommend high-level strategies.

Unlike our situation in 2002, we now know how much the state spends in each result area. We intend to use these percentages as a starting point for the allocation to results teams. All funds will be used in the allocations, and this year we can provide more information to teams about particular fund sources assumed in the allocation. We will, however, ask teams not to be constrained by fund source restrictions. The spending plans must pass the test of whether the activities purchased represent the best strategies to achieve the highest priority results.

Some other notes about the allocations:

- Key trust fund revenues (e.g., unemployment insurance, workers' compensation) and associated costs will not be included in the general allocation. The Guidance Team may commission a separate POG-type look at the activities within these trust funds.

- Federal funds will be included in the allocations based on current assignments and we will try to provide teams with information on the most important match and service delivery requirements tied to those funds.
- Judicial and legislative functions will be included. Non-revisable agency functions will be assumed funded at current levels.
- Local government - Allocations of state funds to local units of government will be included, locally generated funds will not.

Guidance Team
Roles and Responsibilities

Who is the Guidance Team?

- A group of state and local government, non-profit, labor, and business executives make up the Guidance Team. This year's Guidance Team members include:
  - Tom Fitzsimmons, Chief of Staff
  - Marty Brown, Office of Financial Management
  - Dick Davis, Washington Research Council
  - Stan Finkelstein, Association of Washington Cities
  - Valoria Loveland, Department of Agriculture
  - Maureen Morris, Washington State Association of Counties
  - Steve Reynolds, Washington Roundtable
  - Fred Stephens, Department of Licensing
  - Dick Swanson, Washington Roundtable
  - Beverly Weber, United Way Benton-Franklin County
  - Rick Bender (Invited), Washington State Labor Council

Primary Responsibilities

- Provide an executive/citizen perspective.
- Affirm the overall POG approach for 2005-07 budget development.
- Review, strengthen, and endorse the framework and high-level purchase strategies put forth by the Results Teams.

Assignments for Spring

- For background, review the current status of the state budget, major POG strategies, agency activities list, and result indicators/measures.
- Starting with the percentages reflected in the 2003-05 enacted budget, review the initial dollar allocation to each result area.
- Approve final instructions to Results Teams.*
- Conduct two "tollgates":
  1. Review Results Teams' assessment of the success/failure of current strategies, and whether current result indicators and measurements are appropriate. Approve current or revised strategy maps.
  2. Approve Result Teams' recommendations for: broad purchase strategies; identification of opportunities to improve results through cost-efficiencies or alternative service delivery; budget direction to agencies.

Assignments for Fall

- Review the final dollar allocation to Results Teams.
- Review the Results Teams' purchasing plan/priority lists in two tollgate sessions.
- Approve the report to the Governor, possibly addressing both "price of government" and purchase plans.

* Reviews of tax "expenditures," trust fund activities, and the price of government could be commissioned as Result Teams (or some other staff team) assignments.

Results Teams
Roles and Responsibilities

The Results Teams

The Results Teams include six to ten subject-matter experts from the executive branch of government. The leads for each of the eleven teams is listed below:

- Student Achievement – Judy Hartmann, Julie Salvi
- Workforce – Doug Vaughn
- Postsecondary Learning – Deb Merle
- Health – Ree Sailors
- Vulnerable Children and Adults – Wayne Kawakami, Kari Burrell
- Economic Vitality – Marc Baldwin
- Mobility – Theo Yu
- Public Safety – Dick Van Wagenen
- Natural Resources – Jim Cahill
- Cultural and Recreational Opportunities – Linda Steinmann
- State Government Support – Peter Antolin

Results Team Responsibilities

Think of yourself as agents for Washington's citizens. Your job is to craft a purchase plan on their behalf that will best deliver your assigned result to them, both short-term and long-term. Think beyond the scope and interests of your own agency to take a statewide, citizen-centered perspective of your result area.

This is a big job. We hope to make it a more manageable job by breaking the work into phases, spacing these phases throughout the year, and engaging the help of agencies in the creation and analysis of proposals.

Here is an overview of the Priorities of Government work this year.

Spring

1. Assess the progress we're making with the path we are on today.
2. Confirm or update the indicators you believe will provide the best evidence that the result is being achieved or not.
3. Confirm or update your team's causal (or strategy) map—the illustration of the significant influences affecting your result.
4. Identify the high-level purchase strategies most important for the state to pursue to achieve results.
5. Identify opportunities to improve results through cost-efficiencies or alternative service delivery.

As work begins this spring, teams may want to think about establishing some ground rules around participation, decision-making, and other meeting management issues.

We also encourage teams to spend some of their time this spring getting better acquainted with the state activities that currently contribute to the result area. Consider holding an "Activity Education Day" or other opportunity to learn more about current agency efforts and results. Each team includes an OFM budget analyst who will serve as a lead in helping the team access agency information and subject-matter experts to aid the team discussions. A research consultant has also been assigned to each team to assist with research needs.

Summer

It is not expected that teams will meet during this time. Agencies will respond to your team's recommendations and provide additional input to the process through their budget proposals in late summer.

Fall

1. Review agencies' responses to the team's recommendations about efficiencies and service delivery alternatives and modify recommended high-level purchase strategies as needed.
2. With the team's dollar allocation, identify the most important activities to purchase to implement these strategies. Also prepare a prioritized list of the activities to buy next, if more money were available.

We ask you to complete this work in four pieces. Each piece will be presented to the Guidance Team at a "Tollgate" session. After each team presentation, the Guidance Team asks questions and offers suggestions. Usually only one or two team members makes the presentation, although all team members are invited and encouraged to attend. More detailed instructions are provided about the products to be presented for each Tollgate session.

Instructions to Results Teams
Products for Tollgate #1 – Due 4/22

Before turning to think about what we should do in the future to achieve results, we would like you to take stock of where we are today. First, please review and confirm the existing definition of success for this result and our understanding of the factors that drive success. Second, we'd like your assessment of our progress to date in achieving the result. Here are specific items we'd like you to cover in Tollgate #1.

1. Identify key indicators

In the 2002 POG report, teams each identified three key indicators they believed would provide the best evidence to the citizen about progress toward the result. These indicators have been refined and baseline data for most is now available on the OFM web site at http://www.ofm.wa.gov/budget/pog/indicators/default.htm. Do these indicators still seem to be the best measures of success? What changes or additions would you recommend, if any?

✓ **Please present the list of indicators you believe will provide the best evidence to the citizen that this result is being achieved.** (Suggested limit: 3-5)

Indicators	Same, Modified, New?

2. Update the Causal (Strategy) Map

In the 2002 report, teams developed a "map" or illustration of the key factors that affect the achievement of the result. (You can view these examples in the team reports (appendices) file at http://www.ofm.wa.gov/budget/pog/reports.htm.) To develop these maps, teams were asked to make an evidence-based assessment of the most important factors of success for that result area. Then the team identified the factors most influential to these first tier factors, and so on until the group felt they had identified all of the key factors contributing to achieving the result. Teams used lines, arrows, etc. to note linkages among the factors.

These causal maps—also called strategy maps—were helpful in articulating the most important influences on results and served as an aid in selecting and prioritizing the strategies the state should pursue to achieve results. Please review the existing causal map and update it to reflect your most current understanding of the key factors that affect achievement for the result.

✓ **Please present the updated causal map for the result.**

3. Provide an initial assessment of the success or failure of current strategies

Please review the purchase plans in the 2002 POG report and the performance progress information you have available.

✓ **Please answer the following questions:**

- **Does the current budget include funding for all of the significant strategies identified by the teams last time? Which strategies were not funded in the budget?** (We're looking for a discussion about how closely the budget aligned with the POG recommendations rather than a numerical reconciliation.)
- **Looking at the performance and indicator information available to you at this time, how would you describe progress in achieving this result?**
- **What are the most significant areas of success in this result area today?**
- **Where do you see the most significant performance gaps? Do these gaps represent the failure of a strategy, the failure to fund a given strategy, or something else?**
- **Where are the most significant opportunities to improve results?**

****** Please limit your material to 4 pages ******

Instructions to Results Teams
Products for Tollgate #2 – Due 5/19

The products for Tollgate #1 provided a look at the progress we've made towards this result. Given where we are today as a state and where we'd like to be, what seem to be the most important strategies for the state to pursue—short term and long term? The product for Tollgate #2 is a start at answering this question. Here are the specific items we'd like you to cover at Tollgate #2.

1. Provide an updated assessment of performance progress

In early May you'll have a chance to review agency strategic plans. These plans will offer insight into the key changes and trends in agency operating environments, customer characteristics, and other issues affecting their ability and capacity to achieve results. These plans will describe the agency goals and objectives and the strategies they intend to pursue to achieve them. You will also gain the benefit of the agency's assessment of performance progress.

✓ **Please update your assessment of the success and failure of current strategies based on any additional information reviewed since Tollgate #1**

- Looking at the performance and indicator information available to you at this time, how would you describe progress in achieving this result?
- What are the most significant areas of success in this result area today?
- Where do you see the most significant performance gaps? Do these gaps represent the failure of a strategy, the failure to fund a given strategy, or something else?
- Where are the most significant opportunities to improve results?

2. Identify High-Level Purchase Strategies

In the 2002 POG report, teams identified high-level strategies the state should pursue to maximize results. (http://www.ofm.wa.gov/budget/pog/reports.htm) Do these proposed strategies need to be revised? In looking at the causal map, research and evidence on proven strategies, and your assessment of performance progress to date, what are the most important strategies the state should pursue to maximize the results to citizens? What is the overall framework by which the result can be delivered or produced? At this point, we don't want recommendations on the detailed activities or programs to purchase. We do want to see a convincing case for the way(s) to generate the result with the resources assigned.

✓ **Present the high-level strategies most important for the state to pursue to achieve this result.**

3. Provide guidance agencies should consider as they develop budget and legislation proposals

The POG I effort focused primarily on identifying the activities most important to achieve results. This year we must take the next step and ask these questions on behalf of the citizen, “Are we buying these important activities at the best possible price?” “Could we improve results through more efficient or effective service delivery?” We can deliver more results to citizens for the money if the costs of high-priority activities can be reduced.

The Activity Inventory and related reports for your result area, agency strategic plan discussions on cost reduction ideas, and the “Tools for Results Teams to Consider” list are just some of the resources you may find useful in identifying potential improvement opportunities. At this point we are looking for opportunities that seem worthy to explore, rather than fully analyzed proposals. In early June, OFM will ask agencies to analyze and present proposals to address many of these ideas as part of their budget submittals later this summer.

✓ **Please answer the following questions:**

- **Do statutory or operational barriers (including fund source restrictions) interfere with pursuing the recommended high-level strategies?**

- **What opportunities do you see to improve results through cost-efficiencies or alternative service delivery?**

****** Please limit your material to 7 pages ******

Instructions to Results Teams
Products for Tollgate #3 – Due 10/6

In the spring, based on available evidence, you identified the high-level purchase strategies the state should pursue to maximize results to the citizens of this state. Now it's time to begin the hard work of identifying the most important activities the state should purchase to implement those most effective strategies. Here are the specific items we'd like you to cover at Tollgate #3.

1. Review and update recommended high-level strategies

Agencies have had the opportunity to respond to the recommendations your team made last spring through their budget submittal. Given this new information, do any of the high-level strategies recommended last spring need to be modified?

- ✓ **Present the confirmed or modified high-level strategies most important for the state to pursue to achieve this result. For context, list the following:**
    - **The Statewide Result**
    - **Key Indicators of Success**
    - **Strategy Map (updated if necessary)**
    - **High-Level Purchase Strategies**

2. Provide an assessment of agency responses to spring recommendations

In the spring, you recommended potential opportunities to achieve results more efficiently and effectively. Agencies have by now analyzed many of these ideas. After reviewing these assessments, which opportunities now appear likely to improve results?

- ✓ **Please answer the following questions:**
    - **Which statutory or operational barriers (including fund source restrictions) that interfere with pursuing the recommended high-level strategies should be removed?**
    - **What ideas to improve results through cost-efficiencies or alternative service delivery do you recommend be implemented?**

3. Identify the most important activities to purchase

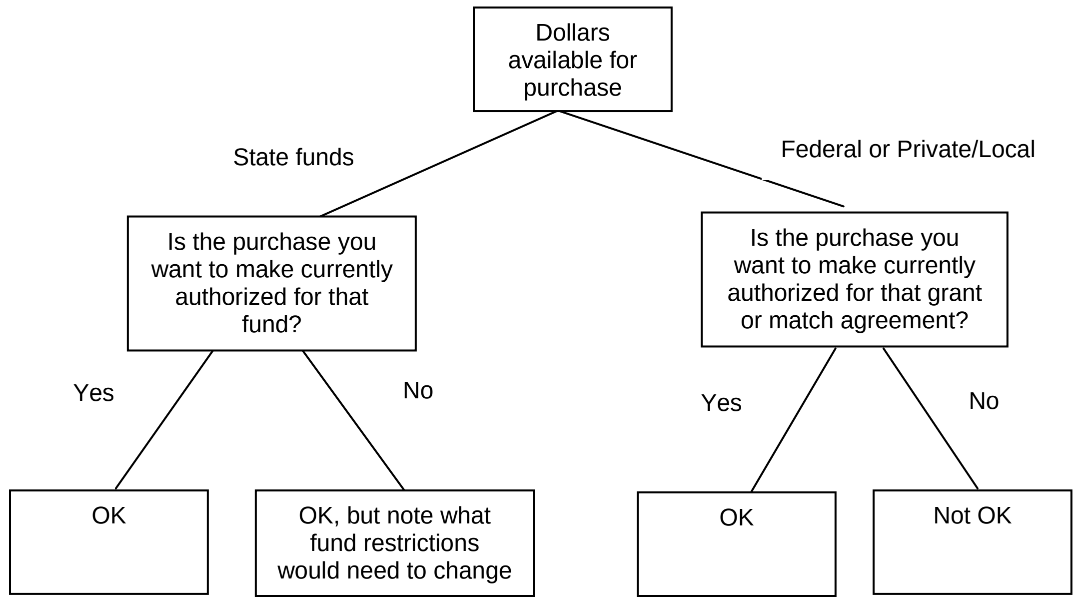
For Tollgate #3, teams will begin developing a purchase plan for their result area. The POG purchase plan is not the same thing as the final budget proposal for the result area. For the plan, we ask you to ignore most of the constraints that we face in building the real budget. The POG teams need only to stay within their dollar allocation and purchase the activities that are most important for achieving results. This ensures the POG process gives us a new perspective on the budget and helps us identify the constraints that may unnecessarily impede our ability to deliver results to citizens.

For Tollgate #3, please begin the development of your purchase plan by identifying the activities <u>most important</u> to purchase to implement the high-level strategies you recommend. You do not need to spend your total allocation; we do not need to see a complete purchase plan until Tollgate #4. At this point we just want to learn about the activities most critical to delivering the results that citizens want. Below are the ground rules for developing your purchase plan. You may find that some of these may not become relevant to your decisions until you begin developing your products for Tollgate #4.

<u>Purchase Plan Ground Rules</u>

- Your team has been given a final dollar allocation for this exercise. This is the maximum amount of state dollars your team can spend to purchase activities.
- Use your total allocation to purchase activities most essential to achieving results. Your decision should be based on the best available evidence about what works.
- For the POG purchase plan, your primary constraints are the total dollar allocation and the charge to buy activities that most contribute to results. Although you will receive information with your allocation about the fund sources that are currently used to purchase activities, you are not restricted by those state fund source constraints for this exercise. However, if using your allocation to buy the most effective strategies means you would be required to use certain funds for purposes prohibited today, please tell us what fund source restrictions would need to be removed to enable that to happen.
- Information about federal and private/local funds, based on current biennium expenditures, will be included with the allocations to teams. We will try to help teams understand the most important match and service delivery requirements tied to those funds. Federal grants and match funds can only be used for authorized purchases in the spending plan. You don’t have to purchase the activity that is supported by federal funds if your team finds it doesn’t contribute enough to results. However you can’t then use that federal money for other purchases in the spending plan. When prioritizing the use of state funds, think about whether they can be leveraged to attract federal funding to the state in order to produce the intended results.

How Allocation Dollars May be Spent in the Purchase Plan



- Local government - Allocations of state funds to local units of government will be included, locally generated funds will not. However, teams should consider the impact of local resources on the achievement of their results. Teams should look for overlaps/duplication of services between and among state and local units. If the team opts to pay local government or sub-recipients to deliver results, the team must identify the conditions and expectations around these results. Please note if statute changes would be needed to make this possible.
- The Activity Inventory reports are meant to show you the current state-funded activities related to your Result Area. In some of these reports, we've grouped activities into categories of similar strategy or purpose to facilitate your discussions. However, you are not in any way restricted to this list of activities in developing your purchase plan.
- The costs shown for the activities will be at the agency proposed maintenance level cost. If you intend to purchase an activity at the same level it is provided today, please use the dollar amounts noted in the Activity Inventory unless you are proposing some change in service delivery that would change costs. Do not try to factor in inflation.
- Conversations and agreements across Results Teams are encouraged. It may be necessary to collaborate with other teams to ensure results are maximized. If a Results Team purchases an activity marked on your report as primary, please make a note of this in your report to the Guidance Team.
- Please refer to other allocation information on page 6 of this guide.

- ✓ **Present a preliminary purchase plan for your Results Area which includes:**
  - **For each high-level strategy**
    - **List the activities most important to purchase**
    - **Indicate the proposed cost of each activity (If the amount differs from the activity inventory, explain why)**
    - **Provide a subtotal of these purchase plan expenditures for the strategy**
  - **Provide the total amount purchased to date**
  - **Indicate the unspent balance of the allocation**

Instructions to Results Teams
Products for Tollgate #4 – Due 10/28

In Tollgate #3 you began to structure the purchase plans by identifying the key activities needed to implement the most effective strategies. In Tollgate #4 you will finish building your purchase plan. Continue to challenge yourself about whether you have procured the best results possible for citizens given your resources. By Tollgate #4 it is more important that your team has wrestled with the right questions than it is to get one "right" answer. What are the key contributors to results? Where's the leverage? What's core? What are the strategic trade-offs? If we're buying a lot of today's services, are there new expectations for results? What innovations do we recommend?

When completed your plan must meet the test of whether the activities being purchased represent the best strategies to achieve the highest priority results. Here are the specific items we'd like you to cover in Tollgate #4.

1. Refine any previous recommendations

As you sort through the information and evidence available to you in building your purchase pan, you may find you need to refine some of your previous thinking and recommendations.

✓ **Please note any changes to previous recommendations and why.**

2. Complete your purchase plan that will maximize results to the citizen.

To complete your plan, please use the template provided and refer to the purchase plan ground rules on pages 17-18.

✓ **Present a final purchase plan for your Results Area that fully uses your team's allocation. Please include:**
  - **For each high-level strategy**
    - **List the activities purchased**
    - **Indicate the proposed cost of each activity (If the amount differs significantly from the activity inventory, explain why)**
    - **Provide a subtotal of purchase plan expenditures for the strategy**
  - **Provide a prioritized list of the activities you did not buy now but would recommend buying if more money were available. The first item to buy back should be at the top. Do not include activities you do not recommend purchasing on this list.**
  - **List the activities in your purchase plan that you would recommend <u>not be</u> purchased if the allocation were 5-10% less. List these in priority order.**

- **List the activities, considered as a primary contributor to this Result Area, that were purchased by other teams.**
- **Identify any primary activities not purchased or placed on the buy-back list.**
- **Identify any changes in current funding practices, including changes in how fund sources can be used, assumed in your purchase plan.**
- **Identify key activity changes, innovations, savings, and new activities assumed in your purchase plan.**
- **Describe the type of capital investments that would contribute most to achieving the results in this result area. Describe other possible affects on the capital budget implied by your purchase plan.**

Tools for Results Teams to Consider
Doing the Right Things. Doing Them Right.

(Adapted from materials provided by the Public Strategies Group)

In times of budget constraints, many activities currently being performed may not be funded, even though they support the desired results. If we can find ways to do the most important activities more cost-effectively, we can potentially free up funds for other activities we could not otherwise afford.

In essence, once we have determined that we are "doing the right things," we should ask ourselves if we are "doing things right." To support that work, we suggest teams consider several proven "tools."

Tools for "Doing Things Right"

Many of the activities of state government can demonstrate a significant contribution to the desired results. About such activities we can still ask, "Are we buying those results as the best price," or "Can we get more 'bang for the buck' if we bought the results in a different way?" In moving to such a results orientation, staff and managers frequently feel constrained by statutes, rules, assumptions, directives or "the way we've always done it." Sometimes, they constrain themselves – through understandable pride or a felt need to defend the practices and people within their purview. Doing that can limit the effectiveness of their workgroups, keeping them stuck in outdated procedures or approaches, that are no longer appropriate or as effective as they could be.

The following tools are intended to challenge, support and guide managers and staff as they consider how to deliver the desired outcomes at a better price or in a better way.

IMPORTANT NOTE: Some of the tools below are obvious choices. Others may seem quite radical. Some may require additional authority, or a change in existing regulations. Some are appropriate for application at a process level, some at a program or policy level. All of them have been proven to work when used in the appropriate circumstances.

Your challenge – as a team member, manager or a change agent – is to support your group's effort to determine which tool to apply, and learn how to use it to good effect. Selecting the right tool for the job is a matter of art AND science. In each case the tool should be selected based on the extent to which its application could improve the outcome of the activity, lower the cost of the activity, or both.

1. **Clear the decks.** Activities that do not contribute significantly to achieving any of the Results should be eliminated. Divesting will almost certainly mean disruption, but in return, it will free up resources to invest in the Results that matter most to citizens. Ordering activities by their contribution to the Results provides a good foundation for determining which activities should be considered for elimination.

2. **Consolidate WHERE IT MAKES SENSE.** Consolidation is the perennial favorite of politicians, who often assume there are economies of scale to be had from merging agencies, or merging service programs into "one-stop" centers. These mergers are

rarely managed beyond moving boxes around on an organization chart, with the result being few real savings and many new costs, as well as significant disruption in service delivery and staff morale. Consolidations are most likely to produce savings or improve Results if they are well-managed, and focused on specific areas, such as:

- **Consolidating missions.** When programs or agencies are combined, they bring with them their various missions. Reconciling and blending the various missions requires a conscious and deliberate organizational change effort, for which time is rarely taken. The result is a lack of focus, if not outright conflict between missions. Consolidations work best when the sponsors of the consolidation work with the resulting program/agency to agree on a clear, focused mission and set of clear, limited performance targets.

- **Consolidating funding streams**. Far more powerful than consolidating agencies or programs is consolidating their funding streams. Specifically dedicated funding leads inevitably to specifically dedicated - and therefore complicated - agencies. Tracking costs according to the "color of money" is another form of the "cost of mistrust." Consolidate the funding, focus it on clearly prioritized outcomes, and use it to purchase those outcomes from whatever programs or agencies can best produce them.

- **Consolidating policy authority.** Most agencies have both policy ("steering") responsibilities and operating ("rowing") responsibilities. These are not the same! "Steering" focuses on doing the right things, while "rowing" functions focus on doing them right. By separating these roles, each can be performed better. Once separated, steering can be consolidated to assure that policy is integrated and mutually reinforcing across a government unit. When coupled with consolidated funding streams, steering organizations can "purchase" key Results from those who row.

  The Master Agreement between the unions and agencies is an example of a consolidated steering authority. Instead of each agency developing individual personnel policies, we can consolidate the responsibility for overarching policy development and negotiation and let individual agencies focus on their core businesses.

  Executive management teams who work collaboratively to develop agency-wide policies and priorities, instead of maintaining division or departmental "silos," are better equipped to find opportunities for supporting shared or collective goals.

- **Consolidating similar operations.** Programs or activities that do similar kinds of work are good candidates for consolidation. Examples include call centers, where technology now makes it cost effective to consolidate customer service call centers in one location instead of in local offices. In such cases, the similarity of the work can offer opportunities for consolidation.

- **Consolidating layers**. Organizational layers may have been necessary when communication was cumbersome and employee skills were limited. But with today's technology and well-trained workforce the justification for so many layers should be questioned. Consolidating layers can save money. It can also improve service when coupled with delegating more authority to those closest to the customers.

- **Consolidating access.** Much of what government does involves the collection and processing of information. Accessing what the government knows has often been cumbersome and expensive for those inside and outside of government units. Technology provides the opportunity to consolidate access -- and in so doing to reduce costs and improve service. An example of this is the web site developed by the Public Disclosure Commission, which makes it possible for members of the public to access information about campaign spending. The upfront cost of developing the web site has been more than offset by the downstream savings in staff research time. Customers are also much happier with the near instant response to their information requests. Look for ways to consolidate data sources to make access easier for staff and customers alike.

- **Consolidating "back room" activities.** Many agencies have similar back-room functions, e.g., phone answering, purchasing, data storage – even though their activities that directly touch citizens are very different. In these cases there may be an opportunity to create a common "back room," reduce the total resources dedicated to these functions, and re-deploy resources to direct service activities.

Managers and staff should explore opportunities to consolidate aspects of activities, in whole or in part to produce the assigned Results.

3. **Buy from across the whole "enterprise."** The means to achieve the desired Results need not be restricted to any specific agency, program or level of government. The best ways to achieve a Result may be found in unexpected places…in places other than where it is currently being done. In the original "POG" exercise, Results Teams looked across the entire state and local enterprise to choose those activities that were best suited to achieving the desired outcome within the resources available. In some cases, they determined that funding was better spent by allocating it to local government agents, or by consolidating similar programs in different agencies.

   Staff and managers can do the same thing as they review activities within their own agency. Could the same activity be done better or at a lower cost at another level of government or in another agency or program? Are there non-profits or private sector alternatives that are better?

4. **Look at the whole budget – not just General Fund.** The general fund is only 65% of the state "all funds budget." In any agency, it may be a larger or smaller proportion of the agency funding. Anything that big is important, but ignoring the rest is a big mistake. And yet that is the norm in state budgeting today.

We should begin by assuming that all funds are consolidated, allocating them to the desired Results without regard to their "color" or to the "strings attached." Start by identifying how your TOTAL resources ***could*** be put to work to achieve the assigned Results. THEN look at how any restrictions (real or perceived) could be addressed. This approach, and the insights that result from it, can:

- Provide a foundation for your conversations with the funding source and support your request for amending the restrictions.
- Identify possible new ways to leverage or apply the funding available.

5. **Cut the cost of mistrust.** The main purpose of 20-30% of government spending is to control the actions of citizens, businesses and the other 70-80% of government. Much of that spending is based on the belief that people will lie, cheat and steal if given the opportunity. If you look into the history of the control program, you will often find that a whole set of policies and procedures were put into place in reaction to one person's misappropriation. This level of mistrust is not only expensive - it undermines performance.

   Examples of opportunities to cut the cost of mistrust abound in any agency - in the multiplicity of signatures on payment vouchers, SCAN bills, travel vouchers, and any other authorizing document. If we could find less expensive ways to "win" compliance, or demonstrate that the cost of mistrust exceeds the risk involved, we could spend more on the activities that produce the Results citizens want. For example, Montgomery County, MD has given its departments the authority to pay invoices in amounts up to $5,000 rather than sending them to central accounts payable. This created flexibility for departments and allowed a more than 50 percent reduction in the accounts payable staff. Departments are still accountable for their actions, but at a much lower cost.

   Many process improvements can be implemented to reduce the layers of "mistrust" that slow down processes and frustrate customers and staff alike.

6. **Make performance consequential.** When there are consequences (either as rewards or sanctions) the incentives for performance can be clearer, and can lead to better results. Examples of ways to make performance consequential include:

   - **Manage like an entrepreneur.** What if all service agencies had to "earn" their budgets by selling to citizens or to other agencies? What if they had to "compete" with other public or private providers for the business of state agencies? For example, the Department of Information Services and the Department of Printing have to compete with other information service and print shop providers for agency business. As a result, they are constantly looking for ways to drive costs down, using the competition as their benchmarks.

   - **Contract competitively.** What if public agencies had to compete with other agencies or private businesses to serve the needs of the public? When public agencies are required to compete they can unleash the creative potential of their employees, because the incentives for success are so direct. The Personnel

Services Reform Act will give managers the flexibility to consider contracting for services that would otherwise be done in-house, if it can be done at a better price or with a better result. Before the agency can competitively contract a service, staff will have the opportunity to present more cost-effective alternatives.

- **Establish service standards and guarantees**. What if an activity developed and posted service standards and provided customers a rebate or other redress if these standards are not met? That's how it works today when you apply for a passport. They either get it to you on time or you get your money back. The result: delighted customers who get passports much faster than they ever thought possible. Governor Locke's Executive Order 03-01, Service Delivery Standards, requires agencies to establish customer service standards.

- **Manage for performance**. Require every agency, program and activity in state government to set performance targets and then measure and report results against those targets. Doing so focuses attention on what matters most – results. To strengthen the focus, add rewards and recognition for success as well as penalties for poor performance.

  It takes several years to develop an effective performance management system, and it requires serious investment. The first two approaches offer faster results and greater savings in the short term; hence, they are more useful during a fiscal crisis. However, over the long term, performance management provides the foundation for measuring outcomes and demonstrating to citizens the return on their investment in government.

  Governor Locke's Governing for Results initiative has supported agencies in building the capacity and infrastructure necessary for a performance management system. Continuing the focus on performance measures will allow us to effectively measure and order activities according to their contribution to Results. Civil service reform will also give managers the ability to deploy performance management to the individual employee level by linking performance to compensation and RIF selection.

- **Increase flexibility in return for accountability**. In exchange for performance accountability, give programs and their managers more flexibility in determining how services are delivered. Tying up programs in red tape while making them accountable for performance is a set up for failure.

  A performance agreement is one way to assure accountability while increasing flexibility. Such written agreements articulate the overseeing manager's expectations, the service provider's goals and freedoms, how performance will be reported, and how that information will be used to trigger consequences, either positive or negative.

7. **Take the customer perspective.** Although we are in the public service, it's easy to forget how the public sees what we do. Focusing on the results that matter most to citizens means that we must bring that question into our process improvement efforts.

As we examine our activities and processes, we should test each step against the requirement that it add positive value to the process customer. If we cannot show that the additional step, review or paperwork supports one of our key Results, we should consider eliminating that step.

8. **Provide choices to customers.** Just being given a choice often increases any customer's perception of value. We can make services more responsive to customer preferences by:

    - **Letting customers serve themselves** through service vouchers or web-based service delivery. Such services give customers control over the content, time and convenience of the services they want. Washington citizens can now buy fishing licenses, check shellfish beach closures, order a moorage permit, renew tabs and search for a state job from their home 24/7. These kinds of self-service options add value to citizens and can be very cost-effective in the medium or long run.

    - **Giving customers choices** and making sure that the money follows the customers. This creates competition between service providers for the customers' business.

9. **Direct subsidies and tax credits to places where they produce a return.** Much state spending really involves transfers of resources from one set of taxpayers to another. Subsidies result when those who benefit most directly from a service are not the same people who pay for it. Some subsidies are made directly, through assistance payments or tax credits. Other subsidies are indirect, like the way most states subsidize college students by subsidizing the schools they attend. Gas taxes that pay for public transportation is another example. In the case of education subsidies, the rationale has been that investing in education provided an economic return in the form of a better-trained workforce, and a social return in the form of equalizing access.

    Over time, subsidies and tax credits come to be seen more as entitlement than an investment. In some cases, they are no longer targeted to those who truly need them, or on producing a return on the investment. By re-examining subsidies and tax credits, and eliminating those that no longer produce the desired Results, we can redirect those resources to more effective strategies.

    Agency staff and managers should identify the subsidies within activities AND explore the extent to which they still produce the expected Results. If not, they could be identified as potential policy recommendations.

10. **Connect every entitlement to an obligation.** Much of our budget is spent on aid payments to other governments, institutions or individuals. Those who receive them often treat these payments as entitlements because there is no explicit obligation expected in return. Welfare reform has shown that adding obligations to entitlements can reduce costs, get people back to work sooner, and free up funding for those in greater need.

Managers and staff should review entitlements within activities and explore ways to explicitly connect payments to an obligation that supports the intended Result.

11. **Get a return on capital investments.** Teams that deal with the use of "capital investment" resources should develop mechanisms for assuring that every investment generates results – in the form of a return on that investment. Among the top priorities for capital should be investments – such as technology systems - designed specifically to make government service delivery better, faster and cheaper. Proposed investments that produce a high return in improved quality or reduced costs should take precedence over those that produce a lower return.